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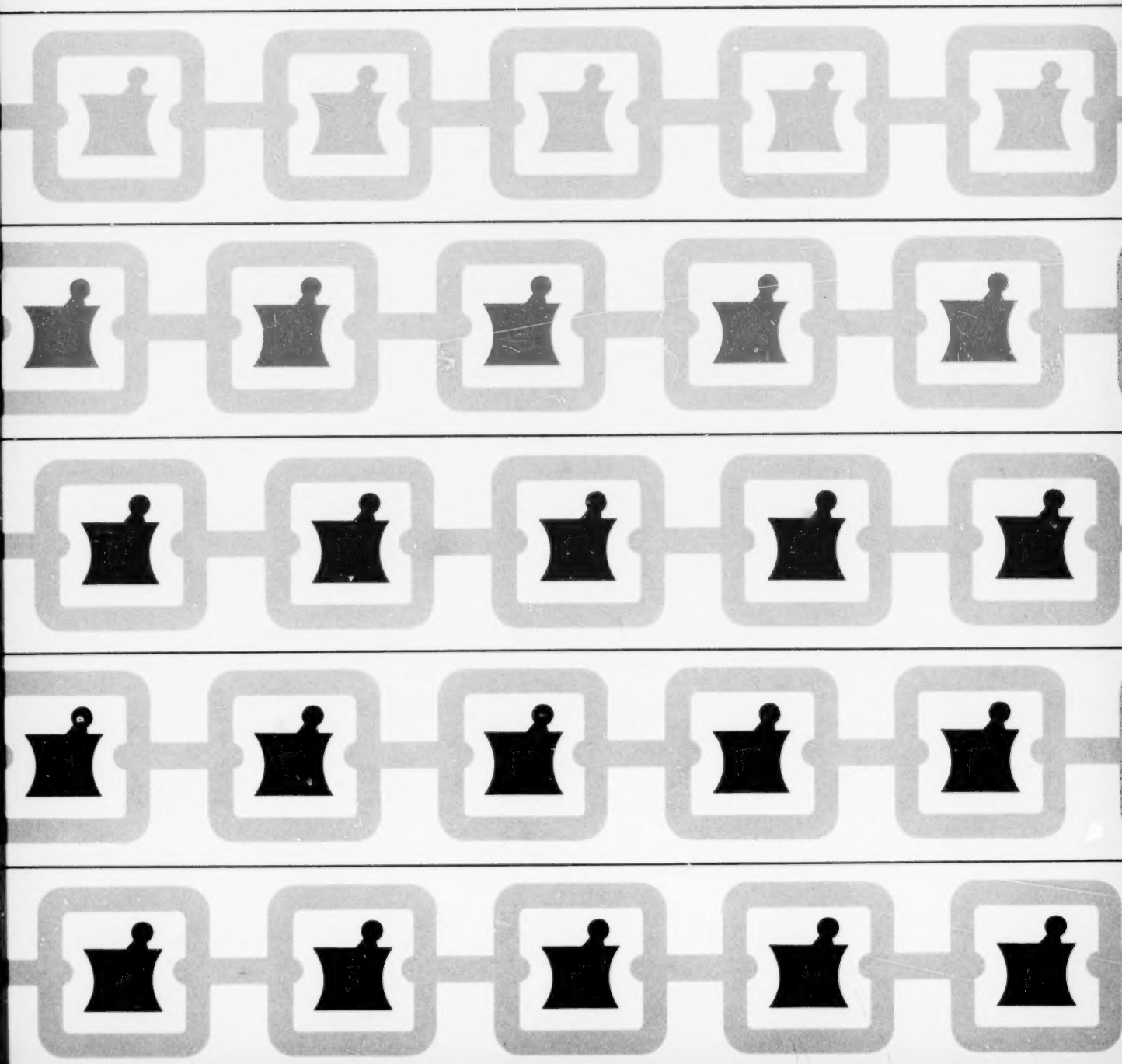

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An abbreviated summary of the 1985 operations of 746 chain pharmacies

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## A Final Word

With the very first edition, the 1971 NACDS-Lilly Digest fulfilled the need cited by the Board of Directors in 1970: to publish an annual review of chain pharmacy operations useful to unit managers. With each succeeding issue, the Digest prepared new tabulations with which stores could be more thoroughly analyzed. Now, after 15 consecutive editions, the NACDS-Lilly Digest is no longer needed. The Board recognized that chain store performance is better measured against corporate internal standards rather than Digest averages which are based on many, diverse stores. For this reason, this abbreviated 1986 NACDS-Lilly Digest is the final edition.

On behalf of the Board and the NACDS membership, this thanks to Eli Lilly and Company for creating and maintaining the NACDS-Lilly Digest for these past years. It has served the industry well.

Bob Bolger

Robert J. Bolger, President
National Association of Chain Drug
Stores, Inc.

# Foreword

For each of more than 15 consecutive years, Eli Lilly and Company in cooperation with the National Association of Chain Drug Stores, Inc. has published the NACDS-LILLY DIGEST. Based on annual financial and prescription information received from chain drug stores across the United States, the DIGEST was designed primarily as a benchmark with which chain store managers could compare their unit's performance. It also offered information about the chain drug industry for investors, bankers, legislators, bureaucrats, and others interested in the chain drug store business.

Most chains today rely on their own system of tracking and reporting internal data for use by line managers. As a result, an increasing number find the effort required to collect duplicate data for the DIGEST simply not worth the return to them. Recognizing this, the NACDS Board of Directors suggested that the NACDS-LILLY DIGEST program be discontinued and, perhaps, replaced by an industry summary prepared by a major firm outside of pharmacy. Accordingly, this abbreviated report will be the final publication of the NACDS-LILLY DIGEST.

Eli Lilly and Company is pleased to have prepared and published an annual NACDS-LILLY DIGEST for those interested in the chain drug industry. Further, on behalf of the entire industry, thanks to those chain firms who contributed their financial and prescription information over the years. Without their participation, the DIGEST would not have been possible.

# Executive Summary

A total of 746 pharmacy units submitted 1985 operating data for this report. Total sales for the group averaged just over $2,271,000 and represented an 0.6% decline from 1984 revenue contrasting sharply with the average annual growth rate of 8.3% during the past decade.

This represents the first time the average NACDS-Lilly Digest pharmacy reported a decline in total sales when compared with the previous year's figure. However, the number of prescriptions dispensed increased substantially during the year. Although the gross margin rose from 28% to 28.3% of sales, the rise in total expenses was more than enough to offset it with the result that net profit fell slightly from the 1984 figure (down from 4.7% to 4.5% of sales).

Prescription income rose to 28.6% of total sales—the highest level on record, and was up 20% in dollars from the previous year. The significant improvement in prescription sales was the result of a marked increase in the total number of prescriptions dispensed accompanied by a $1.11 rise in the average prescription charge. Prescription revenue per square foot of professional area rose to over $1,325, while sales productivity for the nonprescription area declined 17% to about $167 per square foot. Overall, total sales per square foot fell about 10% to just over $220.

The total wage package (manager's salary plus employees' wages) typically represents the largest portion of total expenses. During 1985, this operating expense fell to 10.1% of sales—down from 10.4% in 1984. This was the lowest total-wage-package figure ever recorded by NACDS-Lilly Digest participants. Of the components that make up the total wage package, manager's salary, which includes bonuses, declined both in dollars and percentage from the year earlier. Employees' wages also fell—down 2.3% in dollars to 8.7% of sales.

Rent, although lower dollarwise, remained unchanged as a percent of total sales. However, the average rental rate dropped to $5.48 per square foot as compared with $6.50 in 1984. This may be due to the significant increase in the size of the typical chain pharmacy.

Miscellaneous operating expenses showed a substantial increase both in dollars and as a percent of total sales when compared with the previous year's figure—moving from 10.3% of sales in 1984 to 11.1% during 1985. Although not shown in Table 1, Digest data indicate that the increase in overall miscellaneous operating expenses resulted from higher expenditures for insurance, licenses, and taxes as well as advertising and headquarters fee. Closer review of these data show that headquarters fee accounted for a major portion of this increase—rising from 2.8% of sales in 1984 to 3.8% during 1985.

The value of inventory grew 2.7% dollarwise and increased from 13.4% to 13.9% of sales during 1985. As a result, inventory turnover declined to 5.2 times. Sales per dollar invested in inventory fell slightly from $7.44 to $7.20. However, it is worth noting that inventory per square foot of floor space was quite similar for both years at about $30.

Prescription activity grew from the level reported in last year's NACDS-Lilly Digest. The number of prescriptions dispensed totaled almost 50,000, a 9.7% increase from the 1984 figure. The ratio of new and renewed prescriptions to total prescriptions dispensed remained essentially the same as recorded last year. The average prescription charge rose 9.3% during 1985, from $11.90 to $13.01.

It is important to note that the average prescription charge is composed of several components. The major determinant of this statistic has historically been the number of units dispensed on each prescription. Third-party programs, especially, have accelerated the quantity of medication dispensed on each order. Observers have commented that larger quantities of maintenance medication provide economies for these program payers and a degree of convenience for patients who use certain pharmaceuticals for the long-term. However, the net

# TABLE 1 Current trends in chain pharmacy operations

| AVERAGES PER PHARMACY | 1985 (746 Pharmacies) | 1984 (1,282 Pharmacies) | Amount and Percent of Change |
|---|---|---|---|
| **SALES** | | | |
| Prescription | $ 649,655— 28.6% | $ 541,386— 23.7% | +$108,269—20.0% |
| Other | 1,621,433— 71.4% | 1,742,231— 76.3% | −$120,798— 6.9% |
| Total sales | $2,271,088—100.0% | $2,283,617—100.0% | −$ 12,529— 0.6% |
| **COST OF GOODS SOLD** | 1,629,071— 71.7% | 1,644,992— 72.0% | −$ 15,921— 1.0% |
| **GROSS MARGIN** | $ 642,017— 28.3% | $ 638,625— 28.0% | +$ 3,392— 0.5% |
| **EXPENSES** | | | |
| Manager's salary | $ 31,806— 1.4% | $ 33,935— 1.5% | −$ 2,129— 6.3% |
| Employees' wages | 198,078— 8.7% | 202,811— 8.9% | −$ 4,733— 2.3% |
| Rent | 58,050— 2.6% | 59,371— 2.6% | −$ 1,321— 2.2% |
| Miscellaneous operating expenses | 253,097— 11.1% | 236,104— 10.3% | +$ 16,993— 7.2% |
| Total expenses | $ 541,031— 23.8% | $ 532,221— 23.3% | +$ 8,810— 1.7% |
| **NET PROFIT** (before taxes) | $ 100,986— 4.5% | $ 106,404— 4.7% | −$ 5,418— 5.1% |
| **INVENTORY** | $ 315,300— 13.9% | $ 307,038— 13.4% | +$ 8,262— 2.7% |
| **ANNUAL RATE OF TURNOVER OF INVENTORY** | 5.2 times | 5.4 times | |
| **NUMBER OF PRESCRIPTIONS DISPENSED** | | | |
| New | 25,876— 51.8% | 23,591— 51.9% | + 2,285— 9.7% |
| Renewed | 24,049— 48.2% | 21,904— 48.1% | + 2,145— 9.8% |
| Total prescriptions | 49,925—100.0% | 45,495—100.0% | + 4,430— 9.7% |
| **PRESCRIPTION CHARGE** | $13.01 | $11.90 | +$ 1.11— 9.3% |
| **SIZE OF AREA (SQ FT)*** | | | |
| Prescription | 490— 4.8% | 451— 4.9% | + 39— 8.7% |
| Other | 9,710— 95.2% | 8,681— 95.1% | + 1,029—11.9% |
| Total | 10,200—100.0% | 9,132—100.0% | + 1,068—11.7% |
| **SALES PER SQUARE FOOT*** | $220.07 | $245.81 | −$ 25.74—10.5% |
| **RENT PER SQURE FOOT*** | $ 5.48 | $ 6.50 | −$ 1.02—15.7% |
| **PHARMACY HOURS OPEN** | 83 | 83 | no change |

*Based on averages of pharmacies that reported all data.

result is an increase in the average prescription charge.

In terms of prescriptions per day, pharmacies reporting 1985 data dispensed 137; up from 125 per day during 1984. Other data not shown in Table 1 were used to express these figures per pharmacist hour. To calculate this "prescription production per pharmacy hour figure" figure, 25% of the manager's hours were assigned to the prescription department in addition to 100% of the staff pharmacists' time. Pharmacy technicians were not broken out. Using this approximation, 10.6 prescriptions per pharmacist hour were dispensed during 1985 compared with 9.8 during 1984.

The average floor area per unit increased almost 12% or 1,068 square feet to 10,200 square feet in 1985. The nonprescription area was responsible for virtually the entire increase. The typical chain pharmacy was open for business 83 hours per week during 1985—unchanged from the previous year.

# Sales Volume Summary

Chain pharmacy managers have long recognized that sales volume is the major consideration for a unit's success; and, very often, location is the primary determinant of sales. In this report, sales figures are adjusted to exclude refunds, sales tax collections, allowances to customers, and returns. The cost of goods sold is adjusted for discounts received, warehouse fees, and freight charges.

Table 2 shows that as sales volume rises, gross margin and total expenses tend to decline as a percent of sales. The decline in total expenses occurs at a faster rate than does gross margin, with the result that net profit is greater in larger volume operations.

The chain drug store units with sales volume under $1,500,000 may represent diverse types of operations. Pharmacies in this category usually include newly opened stores and/or outlets that are in the early stages of development and have yet to reach full sales potential. Also included in this category may be established pharmacies which are experiencing sales declines due to changing markets and/or competition. Some units in this group may be the result of the parent firm's desire to maintain a "market presence" even though the individual unit is not keeping pace with the company's averages. In any event, the prospects for such businesses should be evaluated with an awareness of local conditions. Relocation of these businesses is always a consideration.

As mentioned earlier, gross margin tends to decline percentagewise as sales increase (Table 2). It has been suggested that this downtrend may be the result of the gradual reduction in the ratio of prescription sales to total sales as revenue rises. This assertion is supported by the data in Table 2 which shows that the percentage of prescription income drops from 37.3% in units with the smallest sales volume to 23.3% in stores with sales revenue in excess of $3,000,000. Another explanation for this trend may be the competitive environment faced by chain stores in high sales growth areas. Thus, their merchandising mix emphasizes traffic-producing, lower margin goods.

Total expenses decline from about 30% of sales to about 20% as sales volume increases (Table 2). Consequently, net profit is highest at 6.4% of total sales in the top sales group. A major component of total expenses is the total wage package (manager's salary plus employees' wages). The increase in sales volume is accompanied by improved employee productivity as shown by a steady decrease in the total wage package, from 13.6% to 8.6% of sales.

Another contributor to the overall reduction in total expenses is miscellaneous operating expenses (all costs except salaries, wages, and rent), which fell from 13.3% of sales in the lowest sales category to 9.4% in the highest. Of this group, miscellaneous expense, advertising, and headquarters fee seemed to show the greatest decline as percents of sales. It is important to note that several of the items within this expense category are fixed or semivariable and normally would be expected to decrease percentagewise as sales advance.

Rental expenditure dropped from 3.0% of sales in the lowest sales group to 2.2% in the highest. However, rental expense per square foot tends to increase as annual sales grow (Table 2) which suggests that the space is more valuable in terms of sales productivity. Dollarwise, the average rental charge moved upward from about $31,000 to over $95,000.

Effective management of inventory is essential to maximize return on investment. Table 2 shows that as sales rise, inventory dollars increase (from about $196,000 in the lowest sales group to over $486,000 in the highest) although, percentagewise, inventory investment declines from 19.2% to 11.4% of sales. Generally, the downward movement of inventory as a percent of sales reflects greater efficiencies and productivity. Chain pharmacies with sales under $1,500,000 posted a sales per stock dollar figure of over $5.00, whereas stores with sales in excess of $3,000,000 reported a sales per stock dollar figure close to $9.00. Overall, inventory turnover ranges from 3.7 times in stores with the lowest volume to 6.5 times in units with the highest. Accounting procedures used for inventory valuation were not reported.

Total prescriptions dispensed move from about 30,000 in the smaller sales volume units to about 75,000 in the larger ones. Interestingly, as chain stores increase their sales, both total prescription activity and the share of new prescriptions dispensed move upward. One explanation for this may be that most of these larger stores are located in shopping centers where

# TABLE 2 Chain operations according to sales volume

| AVERAGES PER PHARMACY | Total Sales under $1,500,000 (243 Pharmacies) | Total Sales $1,500,000 to $3,000,000 (334 Pharmacies) | Total Sales Over $3,000,000 (169 Pharmacies) |
|---|---|---|---|
| **SALES** | | | |
| Prescription | $ 380,270— 37.3% | $ 669,444— 31.0% | $ 997,885— 23.3% |
| Other | 638,831— 62.7% | 1,491,710— 69.0% | 3,290,795— 76.7% |
| Total sales | $1,019,010—100.0% | $2,161,154—100.0% | $4,288,680—100.0% |
| **COST OF GOODS SOLD** | 718,740— 70.5% | 1,523,850— 70.5% | 3,145,957— 73.4% |
| **GROSS MARGIN** | $ 300,270— 29.5% | $ 637,304— 29.5% | $1,142,723— 26.6% |
| **EXPENSES** | | | |
| Manager's salary | $ 30,090— 2.9% | $ 30,176— 1.4% | $ 37,494— 0.9% |
| Employees' wages | 108,772— 10.7% | 195,682— 9.1% | 331,222— 7.7% |
| Rent | 30,843— 3.0% | 58,980— 2.7% | 95,328— 2.2% |
| Miscellaneous operating expenses | 135,330— 13.3% | 262,565— 12.1% | 403,724— 9.4% |
| Total expenses | $ 305,035— 29.9% | $ 547,403— 25.3% | $ 867,768— 20.2% |
| **NET PROFIT** (before taxes) | ($ - 4,765— 0.4%) | $ 89,901— 4.2% | $ 274,955— 6.4% |
| **INVENTORY** | $ 195,709— 19.2% | $ 303,469— 14.1% | $ 486,535— 11.4% |
| **ANNUAL RATE OF TURNOVER OF INVENTORY** | 3.7 times | 5.0 times | 6.5 times |
| **NUMBER OF PRESCRIPTIONS DISPENSED** | | | |
| New | 15,414— 50.9% | 26,672— 51.7% | 39,342— 52.5% |
| Renewed | 14,848— 49.1% | 24,918—48.3% | 35,561— 47.5% |
| Total prescriptions | 30,262—100.0% | 51,590—100.0% | 74,903—100.0% |
| **PRESCRIPTION CHARGE** | $ 12.57 | $ 12.98 | $ 13.32 |
| **SIZE OF AREA*** **(SQ. FT.)** | | | |
| Prescription | 367— 5.2% | 437— 4.7% | 533— 3.4% |
| Other | 6,635— 94.8% | 8,779— 95.3% | 15,008— 96.6% |
| Total | 7,002—100.0% | 9,216—100.0% | 15,541—100.0% |
| **SALES PER SQUARE FOOT*** | $139.12 | $228.65 | $268.28 |
| **RENT PER SQUARE FOOT*** | $ 4.25 | $ 6.05 | $ 5.78 |
| **PHARMACY HOURS OPEN** | 78 hours | 83 hours | 87 hours |

*Based on averages of pharmacies that reported all data.

they are likely to attract a greater share of price conscious shoppers who are quick to switch pharmacies thus creating a new prescription.

The average prescription charge trends upward as sales volume increases. The substantial rise in the number of prescriptions dispensed in larger operations and the higher average prescription charge may be explained, in part, in that these type pharmacy operations may dispense a larger share of "maintenance drug" prescriptions which usually call for larger quantities of medication.

As Table 2 shows, the size of a chain store and the hours open for business are directly related to sales volume. As sales grow, the floor area of the unit increases from about 7,000 square feet in the lowest volume store to over 15,000 square feet in the highest. The 7,000 square foot unit, on average, generates about $1,000,000 in sales; but stores with slightly more than twice the space report sales in the $4,000,000 range. The sales per square foot figures also show this remarkable productivity. Pharmacies with less than $1,500,000 in sales were open fewer than 80 hours per week. Those with sales in excess of $1,500,000 were open from 83 to 87 hours per week. The decision to remain open longer must include a projection of new sales and additional expenses as well as an assessment of competition. Very often, the new hours do not meet profit expectations but are forced because of competitive action.

# Prescription Activity

Chain pharmacies submitting 1985 data reported more prescriptions dispensed than in 1984 (Table 1). This increase in prescription activity continues an upward trend over the past three years. Since the average prescription charge was also higher, total prescription revenue increased over $100,000 or 20% from the 1984 figure. As a share of total sales, prescription income rose 4.9% to 28.6%. The professional area's contribution to the average chain pharmacy has increased from 17.7% of total sales in 1975 to 28.6% for 1985 as prescriptions dispensed daily rose from 120 to almost 140. The average prescription charge can be influenced by changes in product mix, the number of doses dispensed, merchandise costs, and dispensing costs; consequently, it is inaccurate to cite a rising "average prescription charge" as evidence of higher prescription prices.

The influence of daily prescription activity on operating statistics is shown in Table 3. Daily prescription activity increases from about 69 per day in the lowest sales volume category to 260 in the highest—close to a four-fold increase. As prescription activity increases, total sales and gross margin also advance. Further, total expenses decline substantially as a percent of sales with the result that net profit averages a remarkable 7.4% in the top category. Interestingly, as prescription sales rise, the average prescription charge tends to remain relatively stable in the $13.00 range. It should be noted that as prescription activity increases, the contribution of prescription sales to total sales rises from a 24% share to about a 32% share.

As expected, when daily prescription volume and total sales increase there is a favorable impact on the total wage package, rent, and miscellaneous operating expenses as percents of sales. As a result, total expenses show a decline from 28.2% of sales in stores dispensing fewer than 100 prescriptions daily to 21.3% in pharmacies dispensing more than 200 per day.

The dollar investment in inventory rises as daily prescription activity grows. However, as a percent of sales, inventory declines from 17.8% to 13.3%. Inventory turnover also shows substantial improvement as prescription activity increases, moving from 4.1 times per year in stores filling fewer than 100 prescriptions per day to 6.3 times in pharmacies dispensing over 200 each day.

Not surprising is the increase in floor area as prescription activity rises. Sales and rent per square foot also move upward with the increase in prescription business. However, as prescription income grows, sales per square foot figures indicate that this space becomes more productive, with pharmacies dispensing over 200 prescriptions per day generating over $300 of sales per square foot of space. Although rent per square foot goes up as prescription volume increases, it rises at a much slower rate than sales per square foot. Put another way, pharmacies in the top prescription category reported twice the rental expense for 50% more space than those in the lowest category but the space generated almost twice the sales per square foot. As prescription business grows, the hours the pharmacy is open also increase—from 79 hours per week in the lower-volume units to 87 hours per week in those with the highest level of prescription activity.

Since sales volume (Table 2) and prescription activity (Table 3) trends are largely parallel, it is always difficult to determine which factor is more important to business success. There are highly successful examples of prescription-oriented pharmacies with minimal front business and, of course, many busy non-prescription operations outside the chain drug industry. It is clear, however, that consumers associate prescription availability with both the presence of pharmacists and a health-care orientation; and pharmacists are the professionals with whom patients most easily communicate. Although arguable, many chain observers seem to agree that an active prescription department is the essential requisite for long term sales success in pharmacy operations. And, so often, accessible pharmacists are the primary determinant of consumer preference and loyalty to a particular store. Therefore, it is suggested that prescription activity is the major factor in chain pharmacy success.

# TABLE 3 Chain operations according to prescription activity

| AVERAGES PER PHARMACY | Under 100 Prescriptions Daily (269 Pharmacies) | 100 to 200 Prescriptions Daily (349 Pharmacies) | Over 200 Prescriptions Daily (128 Pharmacies) |
|---|---|---|---|
| **SALES** | | | |
| Prescription | $ 329,904— 24.0% | $ 683,987— 28.7% | $1,228,022— 31.9% |
| Other | 1,044,998— 76.0% | 1,696,938— 71.3% | 2,626,979— 68.1% |
| Total | $1,374,902—100.0% | $2,380,925—100.0% | $3,855,001—100.0% |
| **COST OF GOODS SOLD** | 993,871— 72.3% | 1,707,807— 71.7% | 2,749,300— 71.3% |
| **GROSS MARGIN** | $ 381,031— 27.7% | $ 673,118— 28.3% | $1,105,701— 28.7% |
| **EXPENSES** | | | |
| Manager's salary | $ 29,524— 2.1% | $ 30,582— 1.3% | $ 39,938— 1.0% |
| Employees' wages | 139,165— 10.1% | 205,694— 8.7% | 301,120— 7.8% |
| Rent | 43,744— 3.2% | 58,107— 2.4% | 87,956— 2.3% |
| Miscellaneous operating expenses | 175,733— 12.8% | 262,197— 11.0% | 390,874— 10.2% |
| Total expenses | $ 388,166— 28.2% | $ 556,580— 23.4% | $ 819,888— 21.3% |
| **NET PROFIT** (before taxes) | ($ - 7,135— 0.5%) | $ 116,538— 4.9% | $ 285,813— 7.4% |
| **INVENTORY** | $ 244,359— 17.8% | $ 314,457— 13.2% | $ 434,861— 11.3% |
| **ANNUAL RATE OF TURNOVER OF INVENTORY** | 4.1 times | 5.4 times | 6.3 times |
| **NUMBER OF PRESCRIPTIONS DISPENSED** | | | |
| New | 13,271— 52.6% | 26,905— 51.3% | 49,561— 52.2% |
| Renewed | 11,958— 47.4% | 25,568— 48.7% | 45,314— 47.8% |
| Total prescriptions | 25,229—100.0% | 52,473—100.0% | 94,875—100.0% |
| **PRESCRIPTION CHARGE** | $13.08 | $13.04 | $12.94 |
| **SIZE OF AREA* (SQ. FT.)** | | | |
| Prescription | 375— 4.6% | 462— 4.3% | 542— 4.2% |
| Other | 7,793— 95.4% | 10,261— 95.7% | 12,292— 95.8% |
| Total | 8,168—100.0% | 10,723—100.0% | 12,834—100.0% |
| **SALES PER SQUARE FOOT*** | $163.98 | $225.36 | $311.55 |
| **RENT PER SQUARE FOOT*** | $ 5.24 | $ 5.36 | $ 6.27 |
| **PHARMACY HOURS OPEN** | 79 hours | 83 hours | 87 hours |

*Based on averages of pharmacies that reported all data.

# Location

Table 4 shows how selected operating statistics of chain pharmacies differ between downtown business district and neighborhood shopping center locations. Chain real estate departments certainly find neighborhood shopping centers very desirable since over 60% of the DIGEST sample has reported this location for several years. However, revitalization of downtown areas may well show renewed interest in these sites.

Chain drug stores located in neighborhood shopping centers posted a higher total sales figure, dispensed more prescriptions, and were larger in size than downtown sites. The prescription sales share of total sales was slightly higher in shopping center stores at 30%; however, gross margin was lower—perhaps because of the more intense competition among businesses in these locations. Despite the favorable impact of higher sales on expenses (particularly the total wage package cost), net profit was lower in the average neighborhood shopping center pharmacy (4.4% of sales). Total prescriptions dispensed in neighborhood shopping center outlets averaged more than 52,000 during the year. It is not surprising that the new prescription share of total prescriptions was greater in these type pharmacies during 1985 given the mobile nature of shopping center customers. This relationship is historically evident. However, it should be noted that the average prescription charge for both types of stores shown in Table 4 is quite similar.

Downtown pharmacies reported substantially fewer prescriptions dispensed and rented a much smaller area. Although they generated more sales per square foot of space than their shopping center counterparts, they also paid more to occupy the space at about $7.00 per square foot. Downtown chain pharmacies were open just 2 fewer hours per week than stores in neighborhood shopping centers.

## TABLE 4 Chain operations according to location

| AVERAGES PER PHARMACY | Downtown Business District (88 Pharmacies) | Neighborhood Shopping Center (443 Pharmacies) |
|---|---|---|
| **SALES** | | |
| Prescription | $ 491,398— 27.3% | $ 681,156— 30.0% |
| Other | 1,305,611— 72.7% | 1,588,364— 70.0% |
| Total sales | $1,797,009—100.0% | $2,269,520—100.0% |
| **COST OF GOODS SOLD** | 1,248,392— 69.5% | 1,633,644— 72.0% |
| **GROSS MARGIN** | $ 548,617— 30.5% | $ 635,876— 28.0% |
| **EXPENSES** | | |
| Manager's salary | $ 29,614— 1.6% | $ 30,771— 1.4% |
| Employees' wages | 175,049— 9.8% | 191,261— 8.4% |
| Rent | 48,702— 2.7% | 56,686— 2.5% |
| Miscellaneous operating expenses | 205,230— 11.4% | 256,609— 11.3% |
| Total expenses | $ 458,595— 25.5% | $ 535,327— 23.6% |
| **NET PROFIT** (before taxes) | $ 90,022— 5.0% | $ 100,549— 4.4% |
| **INVENTORY** | $ 243,883— 13.6% | $ 307,307— 13.5% |
| **ANNUAL RATE OF TURNOVER OF INVENTORY** | 5.1 times | 5.3 times |
| **NUMBER OF PRESCRIPTIONS DISPENSED** | | |
| New | 19,117— 49.9% | 27,201— 51.7% |
| Renewed | 19,217— 50.1% | 25,453— 48.3% |
| Total prescriptions | 38,334—100.0% | 52,654—100.0% |
| **PRESCRIPTION CHARGE** | $12.82 | $12.94 |
| **SIZE OF AREA* (SQ. FT.)** | | |
| Prescription | 349— 5.0% | 421— 4.2% |
| Other | 6,554— 95.0% | 9,535— 95.8% |
| Total | 6,903—100.0% | 9,956—100.0% |
| **SALES PER SQUARE FOOT*** | $251.29 | $218.77 |
| **RENT PER SQUARE FOOT*** | $ 6.98 | $ 5.23 |
| **PHARMACY HOURS OPEN** | 81 hours | 83 hours |

*Based on averages of pharmacies that reported all data.

# Operating Trends

It is an interesting exercise to review pharmacy operating data collected by the NACDS-LILLY DIGEST since its inception in 1971 (Table 5). Of course, sales figures usually attract the most attention and these are rather remarkable—a steady increase from substantially less than $1 million to almost $2.3 million. Net profit, another attention-getting statistic has held between 4% and 5% of sales. Surprisingly, both gross margin and total expenses have also varied in a relatively narrow 1% range; over 28% and over 23% respectively.

The recurring theme in almost every issue of the DIGEST has been the growth of the prescription department. Table 5 shows a steady rise in percentage of prescription sales to total sales from 17.7% to 28.6%. Both the number of prescriptions dispensed and the average prescription charge have also moved up. Pharmacists, the highest salaried personnel in a pharmacy, have increased their hourly prescription productivity from 8.4 in 1970 to 10.6 in 1985. Overall, the professional area has led the way for the average chain unit's sales success since 1970.

## TABLE 5 Averages of pharmacy operations—1970-1985

(based on all pharmacies reporting)

**EXPRESSED IN DOLLARS AND PERCENTAGES OF SALES**

| Year | ($000) Sales | Gross Margin | Total Wage Package | Rent | Total Expenses | Net Profit | Inventory at Cost | Percentage of Prescription Sales to Total Sales | Number of Prescriptions | Prescription Charge | Prescription Sales per Dollar of Prescription Inventory |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1970 | $ 845 | 28.2% | 12.2% | 2.8% | 23.3% | 4.9% | 14.6% | 16.2% | 36,471 | $ 3.77 | $ 8.15 |
| 1971 | 934 | 28.3 | 12.0 | 2.9 | 23.5 | 4.8 | 14.4 | 16.0 | 38,973 | 3.84 | 8.41 |
| 1972 | 979 | 28.1 | 12.0 | 2.8 | 23.7 | 4.4 | 14.2 | 16.4 | 41,344 | 3.89 | 8.64 |
| 1973 | 1,058 | 28.2 | 11.5 | 2.9 | 23.6 | 4.6 | 14.6 | 16.1 | 41,737 | 4.09 | 9.04 |
| 1974 | 1,183 | 28.1 | 11.4 | 2.8 | 23.3 | 4.8 | 14.8 | 16.5 | 44,783 | 4.37 | 9.46 |
| 1975 | 1,173 | 28.2 | 11.9 | 2.8 | 24.1 | 4.1 | 14.0 | 17.7 | 43,457 | 4.77 | 9.54 |
| 1976 | 1,239 | 27.8 | 11.2 | 2.7 | 23.6 | 4.2 | 14.9 | 18.2 | 43,305 | 5.19 | 10.04 |
| 1977 | 1,295 | 28.2 | 11.4 | 2.7 | 24.0 | 4.2 | 15.1 | 18.9 | 43,742 | 5.59 | 10.13 |
| 1978 | 1,443 | 28.2 | 11.2 | 2.6 | 23.8 | 4.4 | 14.5 | 18.3 | 44,144 | 5.99 | 10.37 |
| 1979 | 1,607 | 28.0 | 11.1 | 2.7 | 23.8 | 4.2 | 14.1 | 17.9 | 43,877 | 6.56 | 10.47 |
| 1980 | 1,686 | 28.9 | 11.2 | 2.7 | 24.5 | 4.4 | 14.4 | 18.7 | 43,578 | 7.24 | 10.61 |
| 1981 | 1,824 | 28.5 | 11.1 | 2.5 | 24.9 | 3.6 | 15.1 | 20.0 | 44,001 | 8.31 | 11.37 |
| 1982 | 1,962 | 28.8 | 10.5 | 2.6 | 23.4 | 5.4 | 14.2 | 21.5 | 43,780 | 9.62 | 11.44 |
| 1983 | 1,995 | 28.6 | 10.5 | 2.5 | 23.5 | 5.1 | 14.3 | 23.7 | 43,967 | 10.77 | 11.84 |
| 1984 | 2,284 | 28.0 | 10.4 | 2.6 | 23.3 | 4.7 | 13.4 | 23.9 | 45,495 | 11.90 | 12.45 |
| 1985 | 2,271 | 28.3 | 10.1 | 2.6 | 23.8 | 4.5 | 13.9 | 28.6 | 49,925 | 13.01 | 12.25 |

# Conclusion

During the past decade the chain drug industry implemented a number of innovations in an attempt to capture a greater share of the retail market. Among these strategies was the expansion into a number of diverse lines and businesses not usually associated with pharmacy. It would seem that these measures contributed somewhat to the industry's success, and may continue to do so in the future.

Despite this diversification, current prescription revenue constituted the largest share of the sales dollar in the history of this report. This suggests that the health-care area staffed by experienced pharmacists is still prominent in the thinking of chain executives. It underlines a basic precept in chain pharmacy operations—the prescription department is the only area which differentiates a chain pharmacy from other retailers in the consumer's mind.